

A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD



The Conference Board

FEBRUARY, 1986

SUMMARY

R4105-6A

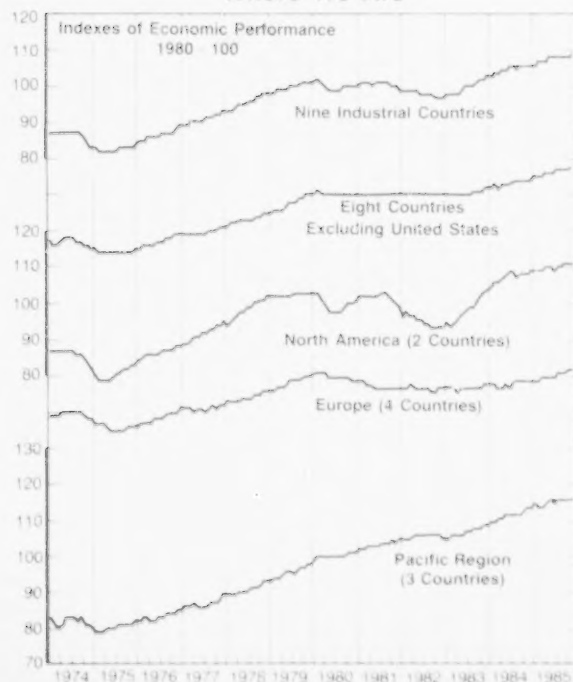
The most important message in the latest data on the world business cycle is the abrupt change in the economic outlook for Japan. As recently as the Spring of 1985 both the leading and performance indexes for Japan were growing with considerable vigor. Since then both indexes have changed direction. At the latest reading the performance index has leveled off, and the leading index is down noticeably. Among the component series that make up the leading index, weakness has been prominent in the ratio of prices to labor costs (an indicator of company profitability), raw materials prices, and new orders for machinery and construction. At this point, the declines in both indexes are not deep enough to rule out the idea that what we are seeing is just a brief interruption of an ongoing expansion. But although we cannot yet reach a conclusive judgment, it is possible that a recession started in Japan during the final quarter of 1985.

Elsewhere, the major industrial countries continue to experience cyclical expansion at a moderate pace. For most countries, it is a "no boom, no bust" pattern. The greatest strength continues to be recorded by Australia. In Taiwan, R.O.C., the business cycle appears to be reviving nicely following a brief relapse in mid-summer.

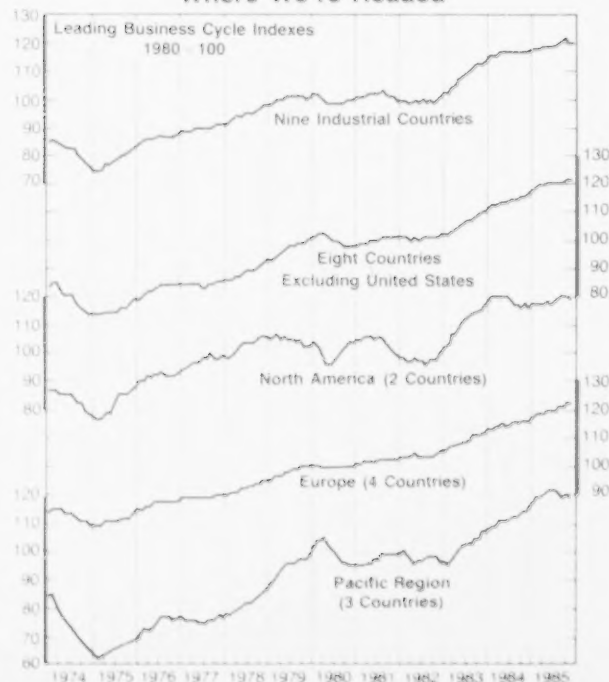
	Ten-year Growth Rate 1969-79	Indexes of Economic Performance Growth Rates*			Leading Business Cycle Indexes Growth Rates*			Current Reading on the Cycle	Latest Month Covered
		6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month		
		annual rates, percent							
9 countries	4	5	4	3	3	3	3	Expansion continuing	Nov.
8 countries ex. U.S.	4	7	5	3	4	3	3	Expansion continuing	Nov.
North America (2)	3	1	2	2	3	3	3	Expansion continuing	Nov.
Europe (4)	3	6	5	4	3	3	4	Expansion continuing	Nov.
Pacific Region (3)	5	10	4	0	5	3	1	Expansion stalling	Nov.
United States	3	0	5	3	2	3	4	Expansion continuing	Dec.
Canada	4	5	8	6	5	5	5	Expansion continuing	Nov.
West Germany	3	6	5	5	4	5	5	Expansion continuing	Nov.
France	4	7	6	6	1	3	6	Expansion continuing	Dec.
United Kingdom	2	3	0	0	3	2	2	Expansion slowing	Nov.
Italy	3	8	8	10	1	3	0	Expansion slowing leaders strong	Oct.
Japan	5	10	3	-2	5	3	0	Expansion stalling	Nov.
Australia	4	12	14	8	8	6	11	Expansion continuing	Nov.
Taiwan, R.O.C.	10	5	8	12	1	-1	4	Expansion reviving	Dec.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

Where We Are

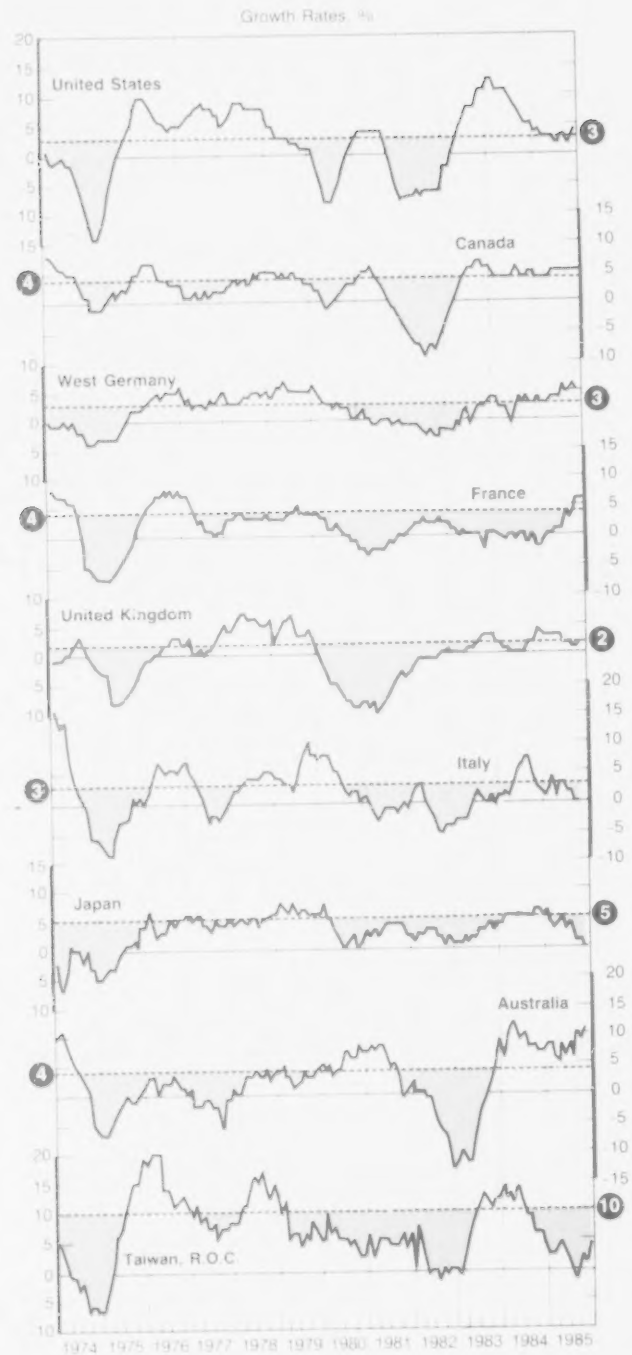
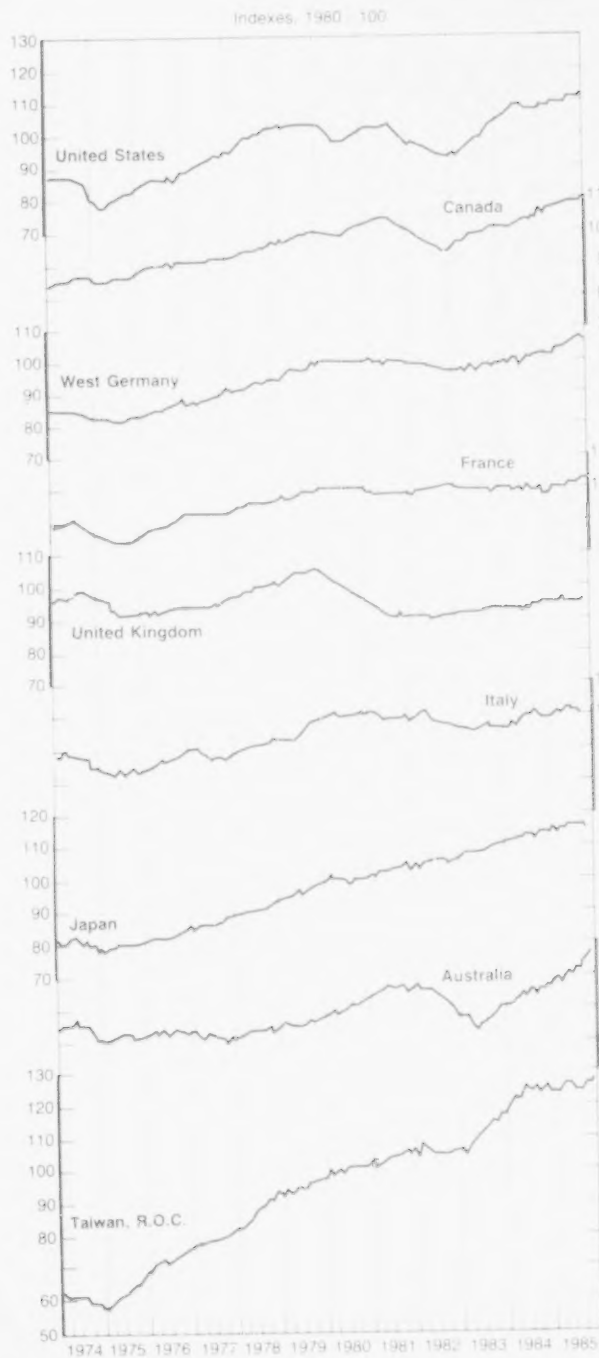


Where We're Headed



Where We Are

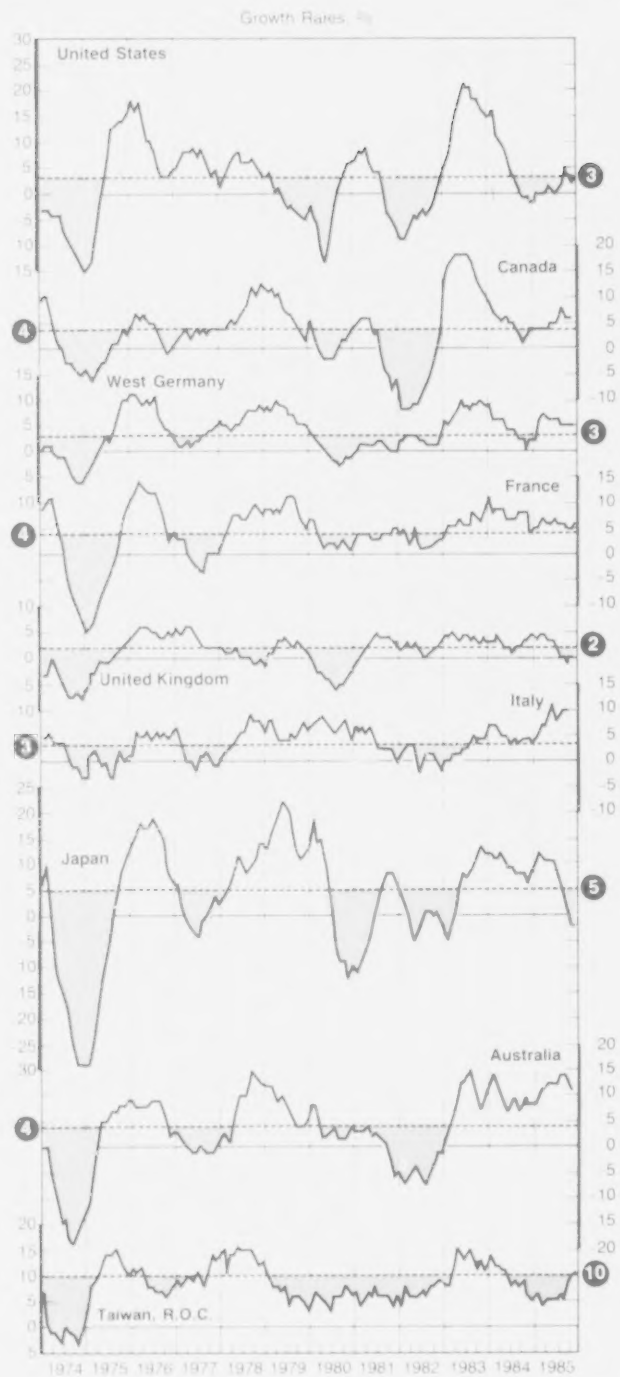
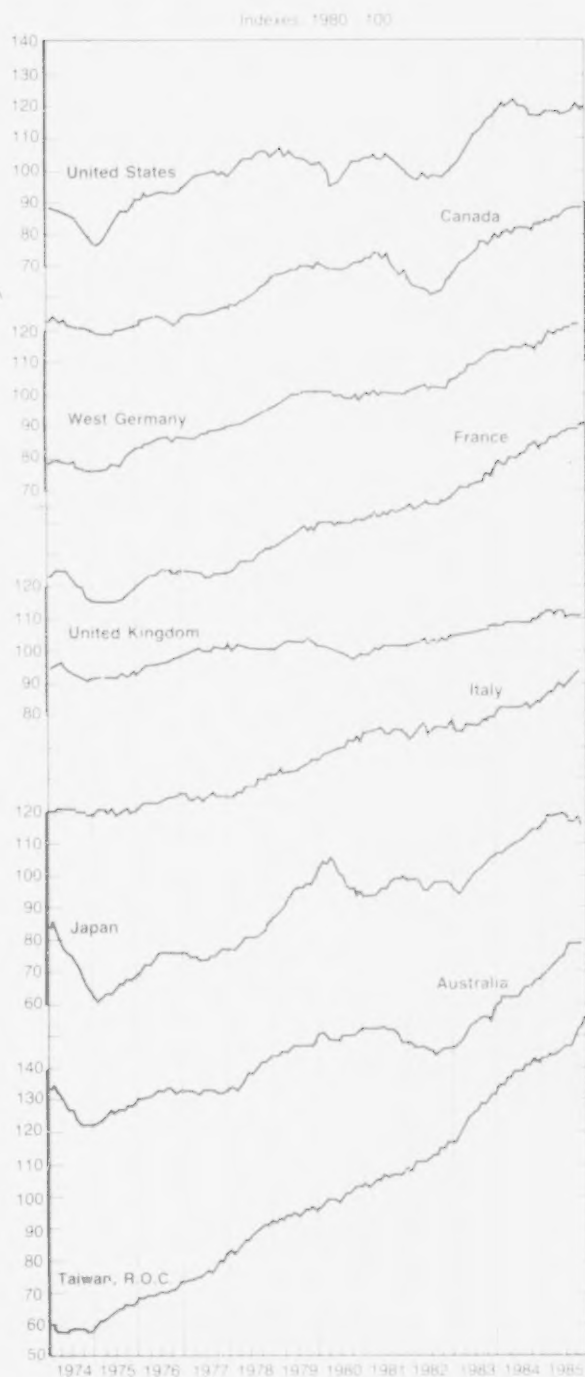
Indexes of Economic Performance



Note: Horizontal dashed lines are average growth rates for 1969-74 in the index and 1969-74 in the index (GDP).
Sources: CIBOR and The Conference Board.

Where We're Headed

Leading Business Cycle Indexes



Note: Horizontal dashed lines are average growth rates for 1969-73 of the index and of real GNP.
Sources: CIBIC and The Conference Board.

PROSPECTS FOR EXPORT GROWTH IN DEVELOPING COUNTRIES: SLUGGISH AGAIN IN 1986

The leading indexes for the nine industrial countries covered in the *Scoreboard* have a good record in disclosing the close ties among these countries and pointing where they are headed. Foreign trade plays a vital role in this process of the international transmission of business cycles, including trade with the *developing* countries. In this issue, we show how the leading indexes for the industrial nations cast light on emerging economic movements in the less developed countries.

Latin American, Asian, and African nations derive their foreign exchange mainly from exports to the industrial countries, and thus exports are a significant ingredient in their economic growth. In addition to the fact that economic growth in these poorer countries is vital to the well being of their people, it is also of special importance to the developed world because of the sharp growth of LDC debt in the 1970s and early 1980s. Major defaults on these debt obligations could inflict serious damage to financial institutions in the United States and Western Europe.

How do the *Scoreboard's* leading indexes for the *industrial* economies provide advance information about economic movements in the developing world? The relationship runs as follows: (1) The leading indexes signal impending movements in output and income in the industrial countries. (2) These movements in aggregate activity affect the demand for imports into the industrial countries, which translates directly into the demand for exports by the developing countries. (3) Thus the leading indexes of the industrial countries which move in advance of changes in their output, income, and imports, provide signals of prospective movements in the volume of the developing countries' exports.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, two types of index are shown for each country: an index of economic performance and a leading index. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call “coincident” series, because they *define* the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more

The charts on the next page show how this relationship has worked out in recent years. In the top chart the growth rate in the total volume (quantity) of exports of the developing market economies is compared with the growth rate in the nine-country leading index. Even though the exports go to all countries—not just the nine industrial countries for which we have leading indicators—there is a distinct tendency for the two curves to move together. The second chart quantifies the relationship and uses the leading index growth rate as of December of each year to forecast the year-ahead change in exports. Although the forecasts are not without error, the results in most years are sufficiently close to give some guidance on whether the developing countries are likely to benefit from rapid growth in exports or suffer a decline.

For 1985, where we have export data only through the first quarter, the leading index forecasts a small decline for the year as a whole. For 1986, the most recent growth rate in the leading index (November 1985) suggests another year of sluggish export demand for the developing countries.

By concentrating on what the leading indexes have to say about this subject, we do not mean to imply that other factors can safely be ignored. Changes in exchange rates, tariffs and other barriers or incentives to trade, supply conditions and pricing policies are always important, and on occasion may be decisive. But the business cycle of the industrial nations, as reflected in the leading indexes, is significant, too, and appears capable of making a contribution to our economic intelligence in appraising trade prospects in the developing countries.

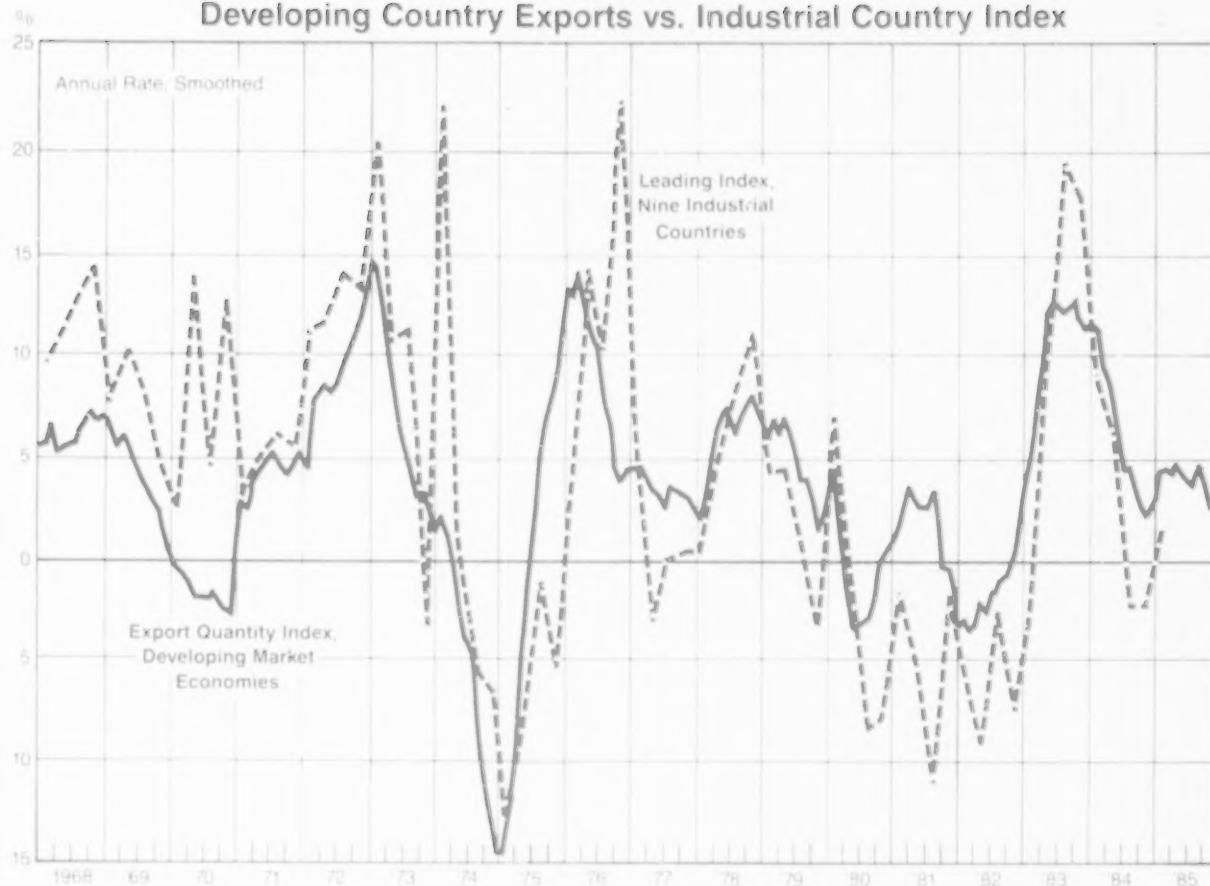
slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see “What the Leading Indicators Indicate!” *Across the Board*, April 1980 and *Business Cycles, Inflation and Forecasting*, Ballinger Publishing Co., 1983.) Considerable variation in the length of lead is to be expected, however. Constant monitoring is needed to make effective use of the system and get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

For More Information

To find out more about this indicator system and the availability of detailed data for each country please address inquiries to:

Center for International Business Cycle Research
Columbia Business School
New York, New York 10027
Telephone: 212 280 2916

Growth Rates Developing Country Exports vs. Industrial Country Index



Forecast and Actual Year-to-Year Changes in Export Volume, Developing Market Economies



Source: United Nations, Committee for International Business and Development.

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INDEXES, NINE COUNTRIES, 1984-85

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan R.O.C.	
		Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead
Indexes 1980 = 100																			
Aug	84	108	118	104	112	101	116	100	122	101	113	93	109	112	111	104	115	124	141
Sept	84	108	118	104	112	101	115	100	123	101	112	94	109	113	112	106	115	123	141
Oct	84	108	117	105	111	102	115	99	123	100	113	94	110	114	112	106	116	124	143
Nov	84	108	117	105	112	102	114	99	124	99	114	95	110	114	112	107	117	125	142
Dec	84	109	117	108	113	102	116	99	123	99	114	95	111	114	114	107	118	124	142
Jan	85	109	117	105	113	102	116	98	124	99	115	95	111	115	116	108	119	124	143
Feb	85	109	118	106	114	102	119	99	125	100	117	95	112	114	118	109	120	124	143
Mar	85	110	118	108	114	102	120	100	126	101	117	95	112	116	118	109	122	125	144
Apr	85	110	118	107	115	103	119	100	126	100	118	95	111	115	119	109	123	126	144
May	85	110	118	107	115	104	120	100	127	101	120	95	112	116	120	111	124	126	145
June	85	110	117	108	116	104	120	100	128	102	119	95	112	116	119	110	126	125	146
July	85	110	118	108	117	105	121	101	129	102	120	95	110	116	119	112	128	124	147
Aug	85	111	119	109	118	105	121	101	129	101	122	95	111	116	117	112	129	124	147
Sept	85	111	121	109	119	106	121	101	129	101	123	95	111	116	117	114	129	124	150
Oct	85	111	120	109	119	107	122	102	130	100	124	95	111	116	118	115	129	126	152
Nov	85	111	119	110	119	106	122	103	130			96	111	115	118	117	129	126	153
Dec	85	112	120					103	131	4								127	156
Growth Rates, Percent																			
Aug	84	8	2	4	6	4	4	0	6	3	4	0	2	4	8	8	9	9	9
Sept	84	9	1	4	4	5	2	0	8	7	3	2	2	4	8	8	7	6	8
Oct	84	9	1	5	1	3	0	1	7	4	4	2	3	5	8	7	9	8	9
Nov	84	9	1	5	2	3	0	1	7	3	4	3	3	5	6	7	8	6	6
Dec	84	9	2	5	3	3	2	0	7	3	4	4	3	5	8	7	8	4	5
Jan	85	3	2	5	3	3	2	0	5	1	4	3	3	6	10	8	8	2	6
Feb	85	4	2	5	4	3	3	0	5	2	5	3	4	4	12	8	10	2	5
Mar	85	5	3	5	4	3	3	0	7	3	5	3	4	3	11	9	11	3	4
Apr	85	3	2	4	4	4	3	0	6	1	6	3	3	4	10	5	12	4	5
May	85	2	1	5	5	4	3	0	6	3	11	3	3	5	10	8	12	3	5
June	85	2	0	5	5	3	4	0	5	3	8	2	2	3	8	6	13	3	5
July	85	2	0	5	5	3	5	0	5	3	9	2	0	4	6	8	14	0	6
Aug	85	2	0	5	5	3	5	0	4	3	9	2	0	5	3	6	14	-2	6
Sept	85	4	2	6	7	7	6	0	5	0	10	1	1	1	1	10	12	-1	8
Oct	85	2	1	5	4	5	5	0	5	0	10	1	0	1	2	9	10	2	9
Nov	85	3	2	6	6	5	6	0	6	0	10	2	0	2	11	8	1	10	
Dec	85	6	3					5	9									4	12
Ten Year Annual Growth Rate, Percent																			
1984-79		3	3	3	4	3	3	4	3	3	3	2	2	3	2	4	4	10	10

1984-79 3 3 3 4 3 3 4 3 3 3 3 2 2 3 2 4 4 10 10

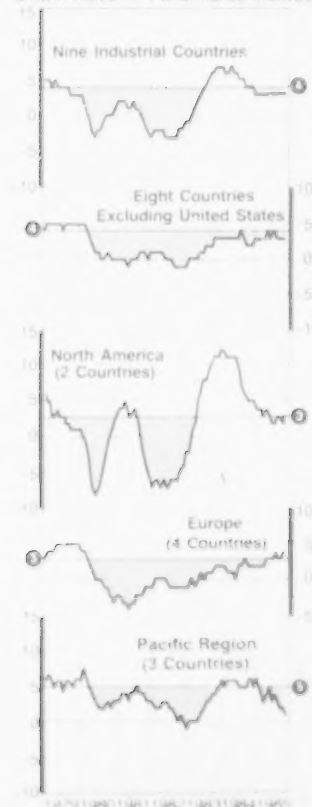
		9 Countries		8 Countries		North America (2)		Europe (4)		Pacific Region (3)	
		Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead
Indexes 1980 = 100											
Aug	84	105	116	104	114	107	117	99	115	112	112
Sept	84	106	116	104	114	108	117	99	115	112	111
Oct	84	106	116	104	115	108	116	99	116	113	114
Nov	84	106	116	104	115	108	117	99	116	114	114
Dec	84	106	116	104	116	109	116	99	116	114	116
Jan	85	106	117	105	117	109	117	99	117	115	117
Feb	85	107	118	105	116	109	117	99	118	114	119
Mar	85	107	118	105	119	109	117	100	119	114	119
Apr	85	107	119	106	119	110	117	100	119	115	120
May	85	108	119	106	120	110	118	100	120	116	121
June	85	108	119	106	120	109	117	100	120	116	121
July	85	108	119	107	120	110	118	101	120	116	121
Aug	85	108	120	107	120	110	119	101	121	116	120
Sept	85	108	121	107	120	111	120	101	121	116	119
Oct	85	108	120	107	121	111	120	102	122	116	120
Nov	85	109	120	108	121	111	119	102	122	116	119
Growth Rates, Percent											
Aug	84	5	4	3	6	7	3	3	4	5	8
Sept	84	5	3	4	6	6	1	3	4	5	8
Oct	84	5	2	4	6	6	1	2	4	5	8
Nov	84	4	2	4	6	6	1	2	4	5	8
Dec	84	4	2	3	5	5	1	2	4	5	8
Jan	85	3	3	3	6	4	1	2	3	4	10
Feb	85	3	3	3	6	4	0	2	3	4	11
Mar	85	3	4	3	7	4	0	2	3	4	11
Apr	85	3	4	3	7	4	0	2	3	4	10
May	85	3	5	4	7	4	0	3	3	5	10
June	85	3	4	3	7	4	0	3	3	5	9
July	85	3	4	4	8	4	0	3	4	5	9
Aug	85	3	4	3	6	3	0	3	3	4	8
Sept	85	3	5	3	4	3	0	3	3	4	8
Oct	85	3	4	3	4	3	0	3	3	4	8
Nov	85	3	5	3	3	3	0	3	4	11	0

Ten Year Annual Growth Rate, Percent

1989-79 4 4 4 4 3 3 3 3 3 5 5

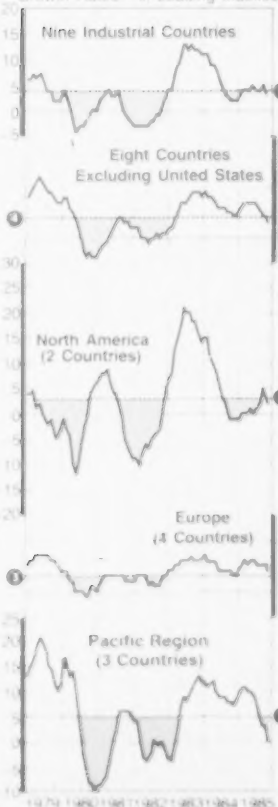
Where We Are

Growth Rates % Performance Indexes



Where We're Headed

Growth Rates % Leading Indexes



1979 1980 1981 1982 1983 1984 1985
Note: The charts (shaded lines) are average growth rates for 1980-79 in the index and in real GDP.
Source: JBRP and The Conference Board